

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 EA-10 NEA-09 IO-10 AGR-10 AID-05

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NSC-05 SS-15 STR-04 CEA-01 L-02 H-02 DODE-00 PA-02

USIA-15 PRS-01 /139 W

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R 301921Z APR 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 0707

UNCLAS SECTION 01 OF 02 LONDON 06556

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652:N/A

TAGS: EFIN, UK

SUBJECT: UK GOVERNMENT ECONOMIC FORECAST

REF: A-268, MARCH 21, 1975 AND LONDON 6259

BEGIN SUMMARY: AT THE TIME OF THE BUDGET, THE /UK TREASURY PUBLISHES ITS FORECAST FOR THE /UK ECONOMY. THIS YEAR THE TREASURY FORECAST IS THROUGH MID-1976. IT INDICATES THAT THE GOVERNMENT EXPECTS REAL GROWTH TO BE LOW THROUGH MID-1976, WITH BOTH CONSUMPTION AND INVESTMENT DEPRESSED. PUBLIC EXPENDITURE IS EXPECTED TO GROW SOMEWHAT MORE RAPIDLY THAN OUTPUT BUT AT A LOWER RATE THAN IN THE PAST TWO YEARS. THE MOST BUOYANT COMPONENT OF DEMAND FROM TREASURY ESTIMATES WILL BE EXPORTS, WHICH THE TREASURY MODEL HAS GROWING RAPIDLY, BEGINNING IN LATE 1975. THIS IS, OF COURSE, BASED ON AN ASSUMPTION THAT ECONOMIC ACTIVITY IN OTHER INDUSTRIAL COUNTRIES WILL STRENGTHEN AND WORLD TRADE VOLUME WILL INCREASE RAPIDLY IN 1976. END

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1. THE BRITISH TREASURY USUALLY PUBLISHES ITS FORECAST OF

THE UK ECONOMY AT THE TIME OF THE ANNUAL (SPRING) BUDGET PRESENTATION. IN 1974, THE TREASURY FORECAST WAS NOT VERY USEFUL AS IT WENT ONLY THROUGH THE END OF CALENDAR YEAR 1974. THE LATEST FORECAST, PUBLISHED ON BUDGET DAY -- APRIL 15 -- GOES THROUGH MID-1976, AND GIVES SOME INDICATION OF THE UK GOVERNMENT'S VIEW OF LIKELY TRENDS IN ECONOMIC ACTIVITY OVER THE NEXT YEAR OR SO. THE TREASURY ESTIMATES ARE PRESENTED ON A HALF-YEAR BASIS. TABLE 1 SHOWS THESE ESTIMATES FOR THE VARIOUS COMPONENTS OF EXPENDITURE FOR 1975 OVER 1974 AND FOR THE SECOND HALF OF 1975 AND FIRST HALF OF 1976 (JULY TO JUNE) OVER THE SECOND HALF OF 1974 AND FIRST HALF OF 1975 (AT FACTOR COST--1970 PRICES).

TABLE 1
1975 II-1976 I OVER
1975/74 1974 II-1975 I

GDP	1.3	0.8
CONSUMER EXPENDITURE	1.8	0.1
TOTAL PUBLIC EXPENDITURE	3.1	3.4
CURRENT EXPENDITURE	4.9	4.3
INVESTMENT EXPENDITURE	-1.2	1.3
PRIVATE FIXED INVESTMENT	-5.9	-5.2
EXPORTS	0.7	3.5
IMPORTS	-2.5	2.2

2. TABLE 2 SHOWS THE LATEST TREASURY FORECAST FOR THE FIRST HALF OF 1975 OVER THE SECOND HALF OF 1974 COMPARED WITH THE FORECAST FOR THE SAME PERIOD PUBLISHED WITH THE NOVEMBER "MAXI-BUDGET."

TABLE 2
APRIL '75 NOVEMBER '74

GDP	-0.4	1.3
CONSUMPTION	1.1	1.7
TOTAL PUBLIC EXPENDITURE	2.1	1.4
CURRENT EXPENDITURE	2.9	1.0
INVESTMENT EXPENDITURE	0	2.6
PRIVATE FIXED INVESTMENT	-5.1	-1.8
EXPORTS	0.7	3.5
IMPORTS	-2.9	4.3

THE FORECAST FOR GDP HAS SWUNG 1.7 PERCENTAGE POINTS AND UNCLASSIFIED

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INDICATES A NEGATIVE GROWTH RATE. ESTIMATES FOR GROWTH OF CONSUMPTION, PRIVATE FIXED INVESTMENT, PUBLIC INVESTMENT EXPENDITURE, EXPORTS, AND IMPORTS HAVE BEEN REVISED EXTENSIVELY DOWNWARD. THE ESTIMATE FOR CURRENT PUBLIC EXPENDITURE HAS BEEN REVISED UPWARD.

3. BOTH THE NATIONAL INSTITUTE FOR ECONOMIC AND SOCIAL RESEARCH (NIESR) AND THE LONDON BUSINESS SCHOOL (LBS) HAVE

ALSO RECENTLY PUBLISHED FORECASTS OF THE UK ECONOMY. COM-
PARISON OF THE LATEST TREASURY FORECAST WITH THESE OTHER

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC 0708

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DEPT PASS TREASURY

TWO FOR THE PERIOD 1975/74 IS IN TABLE 3, AND THAT FOR THE
SECOND HALF OF 1975 AND FIRST HALF OF 1976 OVER THE SECOND
HALF OF 1974 AND FIRST HALF OF 1975 IS IN TABLE 4. THE
LBS FORECAST WAS MADE AFTER THE APRIL BUDGET, THE NIESR
FORECAST BEFORE IT.

TABLE 3 /1/ 1975/74

TREASURY LBS NIESR

GDP	1.3	0.9	2.4
CONSUMPTION	1.8	2.3	2.2
TOTAL PUBLIC EXP.	3.1	3.2	4.1
CURRENT PUBLIC EXP.	4.9	4.8	3.8
PUBLIC INVESTMENT	-1.2	-0.9	5.1
PRIVATE FIXED INV.	-5.9	-9.5	-5.3
EXPORTS	0.7	1.6	1.2
IMPORTS	-2.5	0.3	0.3

/1/ THE ACTUAL GROWTH PATTERN IN 1974 WAS DISTORTED BY THE

3-DAY WEEK IN THE 1ST Q. THUS THE FIGURES IN TABLE 3 ARE GREATER THAN THEY WOULD HAVE BEEN IF NO SUCH DISTORTION HAD OCCURRED; I.E. THE GROWTH RATES WOULD HAVE BEEN SMALLER.

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TABLE 4
TREASURY LBS NIESR

GDP	0.8	0.6	1.2
CONSUMPTION	0.1	1.0	0.2
TOTAL PUBLIC EXP.	3.4	3.3	4.2
CURRENT PUBLIC EXP.	4.3	4.0	2.9
PUBLIC INVESTMENT	1.3	1.8	7.4
PRIVATE FIXED INV.	-5.2	-0.9	-5.6
EXPORTS	3.5	2.5	2.3
IMPORTS	2.2	3.1	2.9

IN BOTH TABLES, THE MOST BUOYANT GDP ESTIMATE IS BY NIESR, WHICH SEEMS TO RESULT FROM THE INSTITUTE'S PRE-BUDGET LARGER ESTIMATE ON PUBLIC EXPENDITURE. OTHERWISE, THERE SEEMS LITTLE DIFFERENCE AMONG THE DIFFERENT ESTIMATES OF THE COMPONENTS OF EXPENDITURE. BOTH TREASURY AND NIESR SEE CONSUMPTION AS ALMOST LEVEL TO MID-1976 WHILE LBS BELIEVES THE WAGE SPIRAL WILL CONTINUE TO BOLSTER CONSUMPTION SPENDING. THE THREE ESTIMATES SEE PUBLIC EXPENDITURE GROWING AT A RELATIVELY RAPID RATE AND PRIVATE FIXED INVESTMENT FALLING. (LBS HAS ONLY A SLIGHT DECLINE TO MID-1976 BECAUSE OF A PROJECTED RECOVERY IN HOUSING. LBS HAS ESTIMATED PRIVATE FIXED INVESTMENT NET OF HOUSING TO FALL BY 3.6 PERCENT FOR THE PERIOD COVERED IN TABLE 4.)

4. IN ALL OF THE TABLES, EXPORTS AND IMPORTS ARE IN REAL TERMS (1970 PRICES) TO GIVE AN INDICATION OF THEIR CONTRIBUTION TO REAL INCOME. THE THREE MODELS HAVE EXPORTS STRENGTHENING CONSIDERABLY IN REAL TERMS BEGINNING IN 1976 (AS OPPOSED TO THE ESTIMATE FOR 1975), AS THE ABOVE TABLES SHOW, BASING THEIR ESTIMATES ON A PROJECTED STRONG RECOVERY OF WORLD TRADE IN 1976. BOTH NIESR AND LBS, HOWEVER, ARE CONCERNED THAT BRITISH EXPORTS WILL NOT REBOUND STRONGLY BECAUSE OF DOMESTIC INFLATION WITH THE RISK OF MAKING BRITISH GOODS LESS COMPETITIVE IN WORLD MARKETS.

5. THE THREE MODELS ESTIMATE CONTINUED GROWTH IN REAL PUBLIC EXPENDITURE MORE RAPID THAN GROWTH OF GDP, AND THE TREASURY AND LBS MODELS INCORPORATE THE EXPENDITURE CUTS IN 1976/77 ANNOUNCED IN THE APRIL 15 BUDGET. THUS, THE CONSENSUS IS THAT PUBLIC EXPENDITURE WILL GROW MUCH MORE QUICKLY THAN NATIONAL OUTPUT. IN NORMAL TIMES OF RECES-

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SION THIS COULD BE DESIRABLE. BUT WITH AN INFLATION RATE OVER 20 PERCENT, A VERY LARGE PUBLIC SECTOR DEFICIT (AND BORROWING REQUIREMENT) IN THE PRESENT FISCAL YEAR AND PROBABLY THE NEXT (AS WELL AS IN THE PREVIOUS ONE), THERE IS REASON FOR CONCERN THAT THE INFLATIONARY PRESSURES IN THE ECONOMY WILL BE EXACERBATED BY THIS RAPID GROWTH IN PUBLIC SPENDING.

RICHARDSON

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